

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL TWO)

Docket No. RM2021-4

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-2 OF CHAIRMAN'S INFORMATION REQUEST NO. 5
(May 19, 2021)**

The United States Postal Service hereby provides its responses to the above listed questions of Chairman's Information Request No. 5, issued May 12, 2021. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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1. Please refer to the Excel file "Proposal Two FCM Letters Cost Model.xlsx" filed with the Petition and responses Chairman's Information Request No. 2.¹ In Response to CHIR No. 2, question 3.c., the Postal Service states that for the NONMODS ALLIED cost pool, letters "receive identical allied handlings at the delivery unit." The delivery costs appearing in Excel file "Proposal Two FCM Letters Cost Model.xlsx," tab "Proposal SUMMARY," cells "B41, B42, & B44" are different for each level of presort (Automation Mixed AADC, Automation AADC, and Auto 5-Digit Letters). Please explain how treating the NONMODS ALLIED cost pool as "Unrelated" instead of "Correlated" reflects these delivery cost differences.

RESPONSE:

The delivery costs appearing in Excel file "Proposal Two FCM Letters Cost Model.xlsx," tab "Proposal SUMMARY," cells "B41, B42, & B44" and the costs measured in the NONMODS ALLIED cost pool reflect separate activities, the costs of which have logically distinct relationships with presorting. The delivery costs are obtained from USPS-FY20-19 and reflect in-office and street delivery activities of city and rural carriers. The measured delivery costs differentials by presort level are driven, chiefly, by differences in the delivery point sequencing (DPS) percentages by presort level. Pieces that are not successfully sequenced in automated DPS processes are sequenced manually by carriers at the case. MAADC pieces have a lower DPS percentage and thus require more manual casing than AADC and 5-Digit pieces, and

¹ Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 2, April 29, 2021, question 3.c. (Response to CHIR No. 2).

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thus higher measured costs. These differences also affect costs incurred in (modeled) distribution activities at delivery units.

In contrast, the mail processing activities performed in NONMODS ALLIED for presorted First-Class Mail letters consist primarily of unloading containers with trays of DPS sequenced letters and trays of non-DPS letters that will need to be sequenced manually. While there are significant distribution cost differentials between DPS and non-DPS mail, which are incorporated in the model, the unloading activity in the NONMODS ALLIED pool is needed regardless of the type of tray in which the letters arrive, and there is thus no cost avoidance opportunity for more-presorted letters. Because there is no difference in mailflow in the NONMODS ALLIED cost pool based on presorting, these costs are appropriately treated as "Unrelated" to presort worksharing.

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2. In its Petition, the Postal Service states that “the data show distinct proportions of tallies by presort level for the three cost pool categories, with the proportions most similar to the volume shares for the Unrelated to Presort group.” Petition, Proposal Two at 13. The Postal Service maintains that the data submitted in Excel file “FY2020 IOCS MP FCM Presort by Rate.xlsx,” filed with the Petition, supports this statement.

In response to Chairman's Information Request No. 3, question 7, the Postal Service provided additional Excel files, “FY2018 IOCS MP FCM Presort by Rate.xlsx,” and “FY2019 IOCS MP FCM Presort by Rate.xlsx.”²

- a. For Excel file “FY2018 IOCS MP FCM Presort by Rate.xlsx” please confirm that in tab “Tables 1-2,” the percentages in cells “B16,” “C16,” and “D16” are not similar to the percentages in cells “B18,” “C18,” and “D18.” If not confirmed, please explain.
- b. For Excel file “FY2019 IOCS MP FCM Presort by Rate.xlsx” please confirm that in tab “Tables 1-2,” the percentages in cells, “B16,” “C16,” and “D16” are not similar to the percentages in cells “B18,” “C18,” and “D18.” If not confirmed, please explain.
- c. Please refer to Table 2 on tab “Tables 1-2,” for Fiscal Year (FY) 2018, FY 2019, and FY 2020. Please explain why the “Unrelated to Presort” percent and the RPW volume percent are similar for FY 2020, but are not similar for FY 2018 and FY 2019.

RESPONSE:

a. Confirmed.

b. Confirmed.

c. The tally and RPW volume proportions can differ for two main reasons. First, the IOCS tally proportions are subject to sampling variability. Since the “Unrelated to

² Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 3, May 11, 2021, question 7.

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Presort" cost pools have fewer direct tallies than the "Modeled/Proportional" or "Correlated" groups, the proportions have relatively large sampling CVs compared to the other cost pool groups. Second, the proportions can differ from RPW proportions by presort category due to differences in the mixes of entry points. As the Postal Service noted in the responses to ChIR No. 3, question 1(d), AADC and 5-Digit letters can avoid some costs in "Unrelated to Presort" operations such as Platform cost pools to the extent they are entered at a destination plant (drop-shipped). However, the cost avoidance is not caused by the presorting; the mailers can claim AADC and/or 5-Digit rates without drop-shipping. Thus, it is sufficient but not necessary for the "Unrelated to Presort" classification that the tally and RPW proportions are similar. The confounding effects of drop-shipping will reduce the measured differences in proportions of tallies between the "Unrelated to Presort" and the other groups. However, if the tallies actually were proportional (or nearly so), statistically significant differences between the proportions of tallies for the "Unrelated" and "Modeled" groups, as shown in the response to ChIR No 1., Question 3(c), should not arise.